NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

# MANUAL FOR BUDGETING, ACCOUNTING, & REPORTING (BAR) OF REAL PROPERTY

OFFICE OF THE CHIEF ADMINISTRATIVE OFFICER,
ISSUED BY REAL PROPERTY MANAGEMENT DIVISION MARCH 2012

## Overview:

This manual replaces the manual entitled, 'Accounting for Real Property Policies and Internal Control Procedures' and the document entitled, 'LDW Lease Handbook', by merging and revising both documents.

The purpose of this manual is to provide a general framework of procedures to address:

a) budgeting and administrative requirements for real property;
b) reporting of real property obligations;
c) promoting effective monitoring of real property lease* information; and,
d) establishing procurement protocol to ensure a framework of internal controls.

The manual is broken down into the following sections.

Section 1: Real Property Budgetary Practices and Constraints
Section 2: Real Property Reporting Requirements
Section 3: Lease Determination Worksheet (LDW)
Section 4: [Reserved for Internal Controls on Real Property Procurements]
Glossary

*Please note a real property lease contract is defined as an agreement conveying the right to access and use of real property, usually for a stated period of time, including rights of entry. Interchangeable terms for real property lease contracts include lease, license, and permit. These procedures apply to all real property agreements.

# SECTION 1

# REAL PROPERTY
# BUDGETARY PRACTICES and CONSTRAINTS

## BUDGETARY

The National Oceanic and Atmospheric Administration (NOAA), Office of the Chief Administrative Officer, Real Property Management Division, performs a budget scoring analysis on real property lease contracts through a spreadsheet analysis called a Lease Determination Worksheet (LDW).

Budget scoring ("scoring") analysis requires the breakdown of terms, conditions, and provisions of real property agreements to differentiate between transactions that may be capital expenditures from those that are operating expenditures.

Capital expenditures require upfront budgeting of the total contract value (either in total dollars or discounted dollars) and the subsequent amortization of the annual rental payments over the full term of the real property agreement.

The Office of Management and Budget (OMB) provides guidance, in Appendix B of OMB Circular Number A-11, specifying the conditions under which a lease is considered capital or operating, for budgetary purposes. Records regarding the scoring analysis on real property procurement actions are required. As stated above, NOAA performs this review through a spreadsheet analysis called an LDW. Instructions on the LDW are provided in Section 3 - LDW Handbook.

### Procurement Practices and Constraints to Manage Budgetary Risk:

### Payments in Arrears

Payment should be made in arrears, at the end of each payment period. Real property agreements should specify that payments will be made in arrears. Exceptions must be approved by the Director, Real Property Management Division.

### Purchase or Own Provision(s)

Without special direction from the Director, Real Property Management Division, real property lease contracts should not include any provisions to acquire the real property including purchase options or lease to own opportunities.

### Government Financing or Guarantee of Third-Party Financing

The real property lease contract should not include language that implies an explicit or implicit guarantee by the government any amount of money other than the lease payment(s). If unsure about language in real property lease contract, please have the Department of Commerce, Office of General Counsel review said language.

### Lease Determination Worksheet Analysis

While termination rights and cancelation provisions are strongly encouraged in all real property lease contracts, for Lease Determination Worksheet analysis purposes, the real property lease contract will be evaluated for scoring purposes, over its full term including all option periods.

A Lease Determination Worksheet dating from the inception date of the lease must be used for initial determination of a capital or operating lease and must remain in the file for the remainder of the lease. If the initial LDW is incorrect as a result of new information or the discovery of an error a re-scoring and revised LDW must be completed.

**Operating Lease Terms**

Pursuant to the Federal Management Regulations, for real property lease contracts awarded in fiscal year 2012 and thereafter, if a real property lease contract is determined to be operating, the lease term cannot exceed authority obtained through the U.S. General Services Administration of a total of twenty (20) calendar years, including any and all option periods.

**Capital Lease Terms**

As encouraged by the U.S. Government Accountability Office, Principles of Federal Appropriations (Red Book), current year appropriations typically expire after five (5) full fiscal years.

Per the NOAA Office of Finance, current appropriated funds can be obligated against a contract and paid out over five (5) full fiscal years, forward.

For real property lease contracts awarded in fiscal year 2012 and thereafter, if a real property lease contract is determined to be capital, the lease term is hereby limited to five (5) full fiscal years forward, including the current fiscal year. In the event the real property lease contract term commences in a previous fiscal year, thus the commencement date is retroactive, the total term may exceed five (5) full fiscal years; but, may not obligate the Government for more than five (5) full fiscal years forward, including the current fiscal year.

**Economic Lifetime**

It is encouraged to solicit information from a Lessor on the condition of the real property asset along with the Lessor's professional opinion on the economic life of his/her real property asset. Obtaining a Lessor provided structural analysis or a Lessor provided Professional Engineer signed assessment of the real property asset is meaningful, but not mandatory.

If the Lessor acknowledges that the real property asset requires structural repair, the lease term should not exceed seven (7) calendar years, forward. If the real property asset requires structural repairs and the Lessor agrees in writing to perform structural repairs during our succeeding lease term, a longer term is permitted.

In accordance with the U.S. General Services Administration 'scoring guidance', since statutory authority for real property leasing does not exceed 20 years and the existing tax laws specify that the economic life of a building or commercial real property asset (regardless of its type), is greater than 30 years, it is rare that a real property lease term will exceed the "75 percent rule". "For the purposes of performing scoring analyses, all buildings, regardless of age, have the economic life of a new building."

**Modifications or Supplemental Agreements to Real Property Lease Contracts**

Written modifications or supplemental agreements that change the financial structure of the Real

Property lease contract including changes to base rent, changes to the area leased, and/or changes to the term, must restate all the terms and conditions, on the supplemental agreement document. Further, a revised lease determination worksheet (LDW) will be required, prior to execution/award by the Contracting Officer.

**Leases in Holdover**

A holdover is a tenancy that is created when the tenant continues to occupy the premises beyond the expiration date of the lease term. Concerning rental payments for leases in holdover status, it is RPMD's policy, where NOAA occupies space after expiration of a lease and before execution of a succeeding lease, extension, or new lease, to continue to make periodic rental payments at the then-current rental rate stated in the expired real property lease contract. Rental payments will be revised to the new negotiated amount retroactive to the agreed-upon effective date of the contract only after execution by the Government of a succeeding lease or an extension.

**Lease Extensions**

Lease extensions are typically employed, if necessary, when a Government tenant is unable to vacate the property by the time a lease expires. Lease extensions are typically limited to no more than the anticipated move-out schedule and/or no more than two (2) years from the effective date.

The following are examples where an extension may be appropriate:

- the tenant or equipment housed at the leased location is scheduled to move, but encounters unexpected delays in preparing the new space for occupancy;
- the Government is consolidating various requirements and the Lease Contracting Officer needs to extend the terms of one or more real property lease contract(s) to match the vacation and move-in schedule; and,
- the Government vacated the premises after the lease expired. The Lease Contracting Officer needs to extend the terms of the lease to cover the remaining period of occupancy, close-out any negotiated terms and conditions, and terminate the existing real property lease contract.

Given the above, if a choice must be made toward negotiating an extension versus negotiating a succeeding lease/new lease, it is best to negotiate a succeeding lease/new lease.

Extensions are undesirable because of several disadvantageous market factors:

- Extensions limit the negotiating power of the Government to secure favorable contract terms, rents, or other conditions;
- Agreements with shorter terms may carry higher rental costs; and,
- Lessors may not want or even be able to accept the terms sought by the Government, due to prior commitments for the space.

**Lease Renewal Options**

A renewal option provided for in a lease contract typically represents a unilateral right of the Government, meaning that the lessor's agreement or signature is not necessary to exercise and effect the option. However, it is critical that the Government provide written notice to the lessor exercising the option. This written notice must be timely according to the terms of the lease for the option terms to be enforceable. It is good practice to send renewal notices via certified mail, return receipt requested, or through an overnight delivery service, keeping receipt documentation as evidence in the file proving delivery.

It is a good practice for, the Contracting Officer, along with the written renewal notice, to include a Lease (supplemental agreement) amendment, to be signed by both the lessor and Contracting Officer, codifying the extended lease term and the new annual rent. A supplemental agreement is administrative not necessary for the renewal to take effect but is an excellent record of the contract action.

If the lease does not require formal notice to exercise the renewal option and provides for renewal options to be automatically exercised unless otherwise, specified by the Government, the renewal provisions are technically a form of termination rights.

Regardless, whether the renewal option provisions, as provided in the real property agreement, require written notice or do not require written notice, for budgetary scoring purposes, the entire term, including all option periods, must be evaluated. Further, The Contracting Officer must document the contract file with a written determination that the option(s) are exercised per the terms of the real property agreement and conform to the procedural requirements for exercising the option. The entire term for operating leases, including any option periods, must not exceed twenty (20) calendar years in total.

**Modifications or Supplemental Agreements Requiring a Revised LDW**

When there is a modification or supplemental agreement to the real property agreement that changes the financial structure of the real property agreement, a revised lease determination worksheet (LDW) is required prior to execution/award by the Contracting Officer. Examples of changes in financial structure include changes to the base rent, change in the asset being leased (e.g. increase/decrease in space leased), and change in the agreement term.

**Modifications or Supplemental Agreements**

The Realty Specialist and/or Contracting Officer are responsible and accountable for lease administration including changes in rent due to any increases or decreases in: i) operating rent; ii) tenant improvement allowance; and/or iii) tax obligations. The Realty Specialist and/or Contracting Officer will review the lease agreement and calculate any increases or decreases. The Realty Specialist and/or Contracting Officer will coordinate with the Lessor, the Line Office Budget Official, the Facility Support Assistant, and the Office of Finance on all such matters. The Real Property Regional Branch Chiefs will ensure modifications or supplemental agreements are handled accordingly.

## MISCELLANEOUS

**Treatment for Prepaid Rent**

There are some instances in which cash flow precedes recognition of the related expense. An example is prepaid rent. Prepaid rent is a rent payment that is made in advance of the related expense recognition.

NOAA has agreed to prepaid rent for a few operating leases. The Regional Real Property Branches have an obligation to track prepayments annually and forward the consolidated information to the RPMD, Management Analyst in Silver Spring. Silver Spring will submit the consolidated list to the Office of Finance. The Office of Finance will prepare the necessary entries to properly classify this cost.

To limit financial and budgetary risk, ideally, real property lease contract payments should be made in arrears, at the end of each payment period. If the real property lease contract is scored as operating and the pre-payment obligation crosses fiscal years the periodic prepayment obligation should be capitalized by the budget office within the line office and drawn down periodically, as determined by the line office, by fiscal year.

To limit long-term prepayment obligations, it is recommended that for real property lease contract awards beginning fiscal year 2012 and thereafter, if a real property lease contract possesses a provision to prepay rent, the periodic prepayment should not exceed twelve calendar months and the lease term should be limited to five (5) full fiscal years including the fiscal year the lease term commences. Any real property lease contract with prepayment of rent must be approved by the Director, Real Property Management Division on a case-by-case and circumstance-by-circumstance basis.

# SECTION 2

# REAL PROPERTY
# REPORTING REQUIREMENTS

# REPORTING

**Personal Property:**

**NEXRAD Towers and Upper Air Inflation Structures**

NEXRAD towers should be classified as personal property. Upper Air Inflation Structures are to be recorded as personal property if NOAA owns the asset. If it is not possible to determine the cost of an Upper Air Inflation Structure, the estimate developed by the Eastern Region – Kansas City engineering office will be used. The file should contain the memo documenting the estimate and the reason actual costs could not be provided.

If an Upper Air Inflation Structure is part of a lease with a Weather Forecast Office (WFO) it will be recorded by real property as part of an operating or capital lease. KPMG has agreed with this treatment based on discussions held at the Real Property Training Conference in Seattle, Washington during June 2-4, 1998. This policy will require disclosure in the lease footnote.

**Trailers, Garages, and Modular Structures**

Trailers, garages, and modular structures meet the definition of a prefabricated structure or item and should be classified as personal property.

**Generators, Wiring, and Cabling**

Generators are to be considered personal property. By definition auxiliary, supplemental, temporary power sources for a facility are mounted on their own pads, in their own housing, and usually have minimal connection points to building systems.

Wiring and cabling improvements, during initial construction should be included in the construction costs. Subsequent upgrades to electrical, telephone, or computer systems will be expensed.

**Security Equipment**

Security equipment, which includes cameras, closed circuit televisions, magnetic card readers, computer equipment, and building access control systems, is considered personal property.

**Computer Center Equipment or Devises are Personal Property**

Even if bolted into racks to the floor or hung from the slab above, all the following are electronic devises and equipment installed for mission based reasons and are considered personal property: Power Distribution Unit; Protocol Data Unit; Packet Data Unit; Process Development Unit; Power Drive Unit; Servers; Local Area Networks; Dedicated HVAC; and even Raised Flooring Systems, if applicable.

**Warehouse or Storage Rack Systems**

Even if bolted into floor, rack systems are considered personal property.

## ECONOMIC LIFETIME OF THE ASSET

Personal property purchases including dedicated mechanical and tenant specific equipment of $200,000 or more, with an economic lifetime of two (2) or more years will be depreciated. The total acquisition cost of the personal property asset will include installation costs (including labor and materials, if known).

Personal property purchases including dedicated mechanical and tenant specific equipment of $200,000 or greater, should be depreciated over the lesser of: i) the initial term of the lease before any option periods; or, ii) the economic lifetime of the personal property asset.

The economic lifetime of a personal property asset can be based upon the "IRS, Recovery Period for Common Assets" and the guidelines from OMB Circular A-76 Supplement, Appendix C, if appropriate.

- Structures (and small building-like improvements)
  - -Temporary Structures 10 Years
  - -Wood Structures 20 Years
  - -Metal and Prefab Structures 30 Years
  - -Masonry Structures 40 Years
- Construction Materials 40 Years
- Electrical Power and Distribution Systems 15 Years
- Plumbing Fixtures and Accessories 15 Years
- Heating, Air Conditioning and Ventilation 10 Years
- Industrial Boilers 10 Years
- Dryers, Dehydrators, and Anhydrators 10 Years
- Architecture and Related Metal Products 10 Years

If the asset has special considerations or is not listed, documentation from the manufacturer or an Architect/Engineer should be in the file providing the economic lifetime of the personal property asset.

**Real Property Improvements/Assets:**
As provided in the Budgetary section of this document; it is encouraged to solicit any information from a Lessor on the condition of the real property asset along with the Lessor's professional opinion on the economic life of his/her real property asset. Otherwise, the default economic lifetime, <u>at any point in time</u>, for real property is hereby <u>30 years</u>.

# NOAA OWNED REAL PROPERTY FILES

**Owned Real Property Files**

The files for real property acquired subsequent to fiscal year 1993, should contain:

a) Deed;
b) Real property acquisition costs, if known;
c) Documentation noting the Beneficial Occupancy Date; and,
d) Other legal documentation, agreements, covenants, or land rights, if applicable.

The files for Owned Real Property acquired subsequent to Fiscal Year 2012, should contain:

a) Deed;
b) Real property acquisition costs, if known;
c) Documentation noting the Beneficial Occupancy Date;
d) Other legal documentation, agreements, covenants, or land rights, if applicable;
e) A summary of all the real property acquisition costs incurred by NOAA in acquiring the real property. This includes all costs paid at settlement, plus any additional expenses to acquire the real property including study expenses, appraisal fees, title research, environmental study and remediation expenses, surveyor expenses, outside counsel or legal expenses, and any formal preparation costs. Final invoices of expenses should be maintained, as well; and,
f) A summary of any construction costs to improve the real property, including grading and infrastructure preparation.

**Owned Real Property obtained prior to Fiscal Year 1994**

For all real property acquired during FY 1993 and prior, the files should contain the Supporting Documentation Rationale Sheet with the appropriate supporting documentation.

Files which possess contradictory documents supporting the acquisition date and acquisition cost should contain a memorandum to the file clarifying which documents are the basis for the acquisition date and acquisition cost.

**Acquisition of Real Property based upon Declaration of Taking**

The acquisition date is the date that the court signed the settlement documentation.

The acquisition cost of real property includes all costs incurred by NOAA that were paid pre-settlement, at settlement, and/or due at the time of the declaration of taking, plus any additional costs incurred by NOAA pre-settlement, to research the property including study expenses, appraisal fees, title research, surveyor expenses, environmental studies, soil boring tests, outside counsel or legal expenses, and any formal settlement preparation costs.

If real property is acquired through donation or judicial process it should be recorded based on the property's Fair Market Value. If it is transferred from another Federal agency, it is recorded at the net book value reflected in the transferor's books.

**Reporting to the Office of Finance**

The Realty Specialist will compile all documentation and acquisition information regarding the real property. The Real Property Management Division, Management Analyst in Silver Spring requires assistance from the Realty Specialist in gathering the acquisition costs and developing the footnote disclosure before the RPMD, Management Analyst in Silver Spring forwards the information to the Office of Finance.

## REAL PROPERTY LEASE DISCLOSURE

Statements of Federal Financial Accounting Standards (SFFAS) Numbers 5 and 6 provide the criteria for liability and asset recognition with respect to leases. OMB Circular Number A-136, Financial Reporting Requirements, provides guidance on the form and content of the financial statements. Based upon SFFAS numbers 5 and 6, and in accordance with OMB Circular Number A-136, the Real Property Management Division discloses all non-cancellable real property agreements with a total contract value (including option periods) $200,000 or greater.

For capital leases with a total contract value $200,000 or greater, the Real Property Management Division separately discloses the portions of the capital lease liability covered by budgetary resources. According to Circular Number A-11, capital leases entered into during FY 1992 and thereafter are required to be fully funded in the first year of the lease.

For each capital lease, an amortization schedule must be completed identifying the rate of interest, the beginning balance, principal payments, interest expense, executory costs, and the ending balance.

The footnote disclosure includes:

a. Description of the Real Property Agreement including renewal options, escalation clauses, along with the amortization of any tenant improvements as part of the Real Property Agreement; and,
b. Lease payment schedule

**Real Property Lease Contract Holdovers**

If the total lease payments for the original/expired lease were $200,000 or more, the lease should be archived by the respective Real Property Regional Office in the fiscal year following the expiration in order to maintain current year activity. If the total rent was less than $200,000, it should be archived by the end of the following quarter in which it expires. The Regional Office will notify the Silver Spring Headquarters office of the action in the quarterly data call.

The succeeding lease will be retroactively effective to the date the old lease expired. The succeeding lease will be classified as either capital or operating based on the LDW results and reported, accordingly.

**Real Property Lease Contract Supplemental Agreements**

When a lease is extended through a supplemental agreement beyond the real property lease agreement’s term, Federal RPM will be changed to reflect the effective date of the extension as well as the new expiration date.

If the supplemental agreement is for a lump sum payment exceeding $200,000, the supplemental agreement must be reviewed by the RPMD Management Analyst in Silver Spring, prior to execution/award by the Contracting Officer. Subsequent to execution by the Contracting Officer, a fully executed supplemental agreement is documentation of agreement to changes in the lease terms and becomes part of the lease, and is filed with the lease.

The Federal RPM database manager then enters the changes into Federal RPM, makes a printout of the changes, initials and dates the printout. To ensure accuracy, a Realty Specialist or Contracting Officer then initials the printout and places it in the file.

For LDW purposes, if a supplemental agreement modifies the quantity of space leased, the lease payment amount (other than operating costs), or the fair market value of the space, the entire agreement must be re-scored through the LDW process prior to execution/award by the Contracting Officer.

**Leases with Indefinite Expiration Dates**

These leases contain a renewal option that is automatically exercised unless the Government gives a written notification within 90 days. For reporting purposes, these leases are given an expiration year of 9999 in the Federal RPM system to show the current year cost as well as project one fiscal year thereafter. Leases with indefinite expiration dates may be terminated at any time.

Expired leases over the $200,000 threshold should be archived in the fiscal year following the expiration in order to maintain current year activity. If the total rent was less than $200,000, it should be archived by the end of the following quarter in which it expires. The Regional Office will notify the Silver Spring Headquarters office of the expiration of the lease in the quarterly data call.

**Leases That Are Terminated Early**

If a lease is terminated prior to the final expiration date, the Real Property Regional Branch Chief should verify that the lease expiration date in Federal RPM has been changed to reflect the new expiration date. Spreadsheets showing future rent payments must be changed as well so that future lease payments will not be overstated. If the total lease payments for the terminated lease were $200,000 or more, the lease should be archived by the respective Real Property Regional Office in the fiscal year following the termination. If the total lease payments were less than $200,000, it should be archived by the end of the following quarter in which it expires. The Regional Office will notify the Real Property Management Division, Management Analyst in Silver Spring of the action at a minimum, on a quarterly basis of any such information.

**A Change in the Real Property Lease Contracts**

Any change that results in a new lease agreement must be re-scored through the LDW process prior to execution/award by the Contracting Officer.

Changes in ownership would not require the agreement to be re-scored.

The following review is performed to validate the accuracy of the financial information in Federal RPM, and is a separate validation function from that of the Line Office Review:

- Entries for leases with total rent less than $200,000 or owned assets less than the $200,000 threshold are peer-reviewed at the discretion of the Regional Real Property Branch Chief or the Director, Real Property Management Division; and

- Entries at the threshold and above will be reviewed by the respective Regional Real Property Branch Chief.

Files documenting new, owned property, and capitalized improvements will be sent to the RPMD Management Analyst in Silver Spring for review.

A Lease Determination Worksheet dating from the inception date of the lease must be used for initial determination of a capital or operating lease and must remain in the file for the remainder of the lease. If the initial LDW is incorrect as a result of new information or the discovery of an error a re-scoring must be completed. Any revised information must be verified against the Federal RPM and updated, accordingly.

**Federal RPM**

Leases should be entered in Federal RPM within 30 days of the award date.

Regardless of inception date, capital leases will be assigned purchase object class codes of 32-30-00-00 for building/storage leases and 32-31-00-00 for land leases.

If a lease is determined to be capital for budgetary purposes and the total lease payments exceed $200,000, Lease Determination Worksheet Part B will be completed by the Silver Spring Headquarters office.

**New Vendor Setup**

When entering a new real property lease contract into the system the Realty Specialist must request a Vendor Identification Number from the Office of Finance to be generated out of the NOAA CBS accounting system.

1. The user must provide the following data to Vendor.Support@noaa.gov :
   - The real property lease contract number
   - A complete Finance Lease Data Sheet
   - Documentation signed by the Vendor/Lessor with their TINS

2. Before receiving the CBS assigned Vendor ID, the user will indicate the Vendor ID in Federal RPM as “Unassigned” to indicate the Vendor ID is still pending.

3. The Realty Specialist should request the “Invoice Payment History by Source Reference” report indicating the Vendor ID as assigned in the CBS database from the Office of Finance, and add to the lease file as documentation for the Vendor ID assigned in Federal RPM.

## LAND (Leased and Owned)

Land is not a depreciable asset.

**For Financial Statement Reporting of Real Property Lease Contracts Involving Land Only**
If ownership does not pass to the Government at the end of the term or through a bargain purchase option, the leased real property is treated as an operating lease. Whether operating or capital, land is not depreciable asset.

**For Financial Statement Reporting of Real Property Lease Contracts Involving Land and Buildings**
If a lease for land including a building/improvement is determined to be capital, the Land and the building/improvement shall be amortized separately over the lease term. Parking lots should be considered part of the building or structure costs to be depreciated.

**For Financial Statement Reporting of Real Property Lease Contracts where Land Value is Less than 25% of Total FMV**
If a lease for land including a building/improvement is determined to be capital and the fair market value of the land is less than 25% of the total fair market value of the entire leased property, at inception of the lease, the land the and building/improvement shall be considered a single unit and amortized together over the term of the lease.

**Owned Land**
The acquisition cost of land includes all costs incurred by NOAA that were paid pre-settlement, at settlement, and/or due to the declaration of taking, plus any additional costs incurred by NOAA pre-settlement, to research the property including study expenses, appraisal fees, title research, surveyor expenses, environmental studies, soil boring tests, outside counsel or legal expenses, and any formal settlement preparation costs.

The cost of preparing real property for federal construction is rolled into the total construction costs of Government buildings and structures and capitalized, accordingly.

Cost of preparing land for federal construction includes demolition of existing structures, removal of existing utility lines, clearing property, tree clearance, grading, leveling for facilities, installing new utility lines, post-settlement environmental testing, and pre-construction inspection costs.

In a position paper dated June 18, 1996 written by KPMG was to document our understanding of the proper accounting treatment of costs incurred subsequent to acquisition of real property.

Under the heading Improvements to Land, beginning with the second paragraph, the paper states, “The costs of improvements having a limited economic life such as landscaping, streets, sidewalks, and sewers should be debited to a Land Improvements account and depreciated over their economic lives. Whether these types of costs are incurred at the time of acquisition or subsequent to acquisition of the land, they should be capitalized separately and depreciated over their estimated economic life." The third paragraph states, "If the Local Government authority is responsible for the continued upkeep of the improvements, then effectively the improvements have an indefinite economic life to the company and therefore should be added to the cost of the land. This is true regardless of when the improvements are obtained, at the time of acquisition or subsequent to acquisition."

Buildings constructed on a leased parcel of land are to be tracked separately from the land, if the building is a capital lease and the land is an operating lease (or vice versa). The building should be given the same lease numbering as the land, with the designation "-B" for building and added to the end of the number. The land should be given the same lease numbering as the building, with the designation "-L" for land and added to the end of the number.

## REAL PROPERTY DISCLOSURE (Leased and Owned)

**Executive Branch Agency as Lessor**

The Office of Management and Budget (OMB) requires Executive Branch Agencies to disclose financial information on permits where NOAA is the lessor. A review should be performed annually on all NOAA outstanding reimbursable agreements; and all leases involving NOAA's assets that have projected receipts. NOAA is required to disclose agreements where income is received beyond compensation for maintenance and operation.

To assist RPMD Silver Spring in gathering data relating to situations such as these, the Regional Real Property Branches should submit annually to the Real Property Management Division, Management Analyst in Silver Spring copies of agreements that include payments beyond reimbursement of utilities and maintenance to NOAA. The RPMD Silver Spring will prepare a summation for the Office of Finance and forward a copy to the Regional Real Property Division.

**Prior Period Adjustments**

If an asset equal to or greater than the $200,000, has been entered into or deleted from Federal RPM during the current fiscal year, but the acquisition or disposal actually occurred during a prior year, the asset will be recorded as a prior year adjustment. That is, the amounts should be recorded as adjustments to the previous fiscal year's balances. Likewise, any such future occurrences should be recorded in the prior year's balances, *not* the current years. Any owned properties that have been acquired or disposed of during any given fiscal year must be tracked.

**Acquired PP&E through Donation, Devise or Judicial Process**

The position paper dated June 18, 1996 written by KPMG was to document our understanding of the proper accounting treatment of costs incurred subsequent to acquisition of real property. The first sentence under the heading of Improvements to Land states "The original acquisition cost of the land is the actual amount paid for the land and any additional costs incurred to place the land in use." If the land is acquired through donation, devise, or judicial process excluding forfeiture the land is valued at fair market value.

The position paper references SFFAS NO. 6. Paragraph 30 of SFFAS NO. 6 that states, "The cost of general PP&E acquired through donation, devise, or judicial process excluding forfeiture shall be estimated fair market value at the time acquired by the Government" The position paper also references NAO 203-157 which states under the heading of PURCHASED and LEASED-TO-PURCHASE LAND REPORT, subheading Acquisition Cost, "if donated, acquired by seizure, or foreclosure, insert the fair market value plus any costs incurred to place the land in use."

If a property donor elects to waive an appraisal, the title insurance valuation may be used to determine the fair market value of the donated property. Notification from the donor stating an appraisal has been waived must be kept on file.

# STEWARDSHIP PROPERTY, PLANT, & EQUIPMENT (PP&E)

## Stewardship PP&E

"Form and Content of Agency Financial Statements," OMB 97-01, requirements include reporting of Stewardship PP&E. Federal Mission Assets, Heritage Assets, and Stewardship Land are the three classes of Stewardship PP&E. These assets will be recorded differently from the general PP&E and should be reported separately on the Statement of Net Cost or disclosed in the footnotes. NOAA's Real Property Community is responsible for reporting Heritage and Multi-use Heritage Assets only. The responsible line offices report on Stewardship Land. The Real Property office will only report stewardship PP&E if the property contains a Real Property interest.

Federal RPM does have indicators for identifying heritage, federal mission, and stewardship assets, which must be reported as specified in FASAB Standard #29. The Regional Real Property Office would need to change the FASAB category under the Acquisition module in the Property Record. Per discussions held with NOAA Finance during the Real Property Conference in Seattle, WA on May 18-20, 1999, this information will continue to be collected via data call responses from the NOAA Regional Real Property Offices.

## Heritage Assets

Heritage assets are unique and are generally expected to be preserved indefinitely. They are held for their historical, cultural, educational, and architectural style. These assets are reported in units versus cost. Examples of heritage assets include the Lincoln Memorial and the Washington Monument.

## Multi-use Heritage Assets

Multi-use Heritage assets serve dual purposes. Not only do they remind society of our heritage; they are also used in daily governmental operations. Examples of multi-use heritage assets include the White House and the US Treasury building.

The cost of acquisition, improvement, reconstruction, or renovation of multi-use heritage assets should be capitalized as general PP&E and depreciated over its estimated useful life. If they are acquired through donation or devise they should be recognized as general PP&E at the assets' fair value at the time received, and the amount should also be recognized as "nonexchange revenues" as defined in SFFAS 7.

Transfers of multi-use heritage assets from one Federal entity to another are transfers of capitalized assets. The receiving entity should recognize a transfer-in as an additional financing source and the transferring entity should recognize a transfer-out. The value recorded should be the transferring entity's book value of the multi-use heritage asset. If the receiving entity is not provided the book value, the multi-use heritage asset should be recorded at its estimated fair value.

**Stewardship Land**

Stewardship Land is land and land rights owned by the Federal Government but not acquired for or in connection with items of general PP&E. NOAA's Stewardship Marine Sanctuaries and Coral Reef Reserve are stewardship land rights. Because they involve no Real Property elements, they are reported by the line offices directly to the Financial Statements Branch.

# FINANCIAL STATEMENTS

## Method of Data Collection for Supplementary Financial Statement Reporting

The Regional Real Property Divisions are responsible for reviewing their real property portfolios and reporting these types of assets to the Silver Spring Headquarters office as part each annual fiscal year end data call. If doubt exists regarding the eligibility of an asset to be considered a heritage or multi-use heritage asset, the prevailing rule of thumb will be to report it. The Silver Spring Headquarters office will review these submissions with NOAA Finance for final determination on whether or not to classify these items as Heritage or Multi-Use Heritage assets. The Regional Real Property Divisions will be notified of exclusions to eliminate the need to submit future updates on the excluded properties.

## Policy Changes Originating from Finance

Policy changes to the Real Property Financial reporting requirements imposed by offices external to the Real Property Management Division will be accepted only after review and recommendation by the NOAA Financial Reporting Branch. Normally, such changes will be accepted 30 days prior to the end of the quarterly reporting period; with changes made inside the final 30 days of the quarterly reporting period being incorporated during the next quarterly reporting period.

# TRANSFER OF REAL PROPERTY TO NOAA FROM ANOTHER FEDERAL ENTITY

## Recording the Transfer of Real Property from another Federal Entity

Effective June 1, 1998, in the Federal RPM property module, assets acquired by NOAA from other Federal agencies should be recorded at the net book value reflected in the transferor's books. If cost information is not available, the cost of the asset should be recorded based on the property's Fair Market Value at the time of transfer.

The Federal RPM depreciation module will reflect the net book value upon transfer, and NOAA's acquisition date. If the asset equals or exceeds $200,000, depreciation will be taken over the economic lifetime of the asset that was assigned by the transferor. If the asset is less than $200,000, the item will not be capitalized, but must be reflected in the master file.

Upon acquisition of the asset, NOAA has the option to assign a different useful life based on the period it expects to obtain benefit from the asset; however, one must justify this useful life in writing and incorporate it into the Real Property file. One must be mindful that this period must not exceed the standard useful lives prescribed by NOAA.

## EXCESS REAL PROPERTY

The Real Property staff is responsible for reporting excess property in accordance with Federal Management Regulations, Chapter 102-75. Requests to demolish any Federally-owned property must follow similar procedures for reporting excess real property.

In the event that notification of excess property is received from a line or staff office, the property must begin the excess/disposal process. Upon submission of the U.S. General Services Administration (GSA), Form 118; "Report of Excess Property", along with the GSA checklist to GSA, enter information into Federal RPM including an estimated Excess Date in the Excessed Property section of the Disposal Dialog Box.

As stated above, when the Realty Specialist identifies property as excess, the Actual Excess Date must be entered in the Excessed Property section of the Disposal Dialog Box.

Ultimately, it is the responsibility of the Realty Specialist and the Facility Support Assistant to remove the property and accumulated depreciation from Federal RPM by entering the Actual Excess Date. A copy of the excess property notification to the Department for screening will be the required documentation for excessing the property. ***Note: The property cannot be removed from the property module until it has been disposed and the disposal documented by the required documentation.*** The property remains the holding agency's responsibility and consequently in the agency's inventory until disposal is completed.

Upon receipt of the required documentation from GSA, the Realty Specialist/Database Manager is to remove the property by completing the Property Disposal section of the Disposal Dialog Box. The property can then be archived once the NOAA Silver Spring Headquarters' Office has completed year end closing procedures.

For excess property that must be reported to GSA, Form 118; "Report of Excess Property" is required. The cost information on this form should agree to the supporting real property documentation file as well as the recorded amount in Federal RPM. In addition to the Form 118, required documentation includes the GSA response letter and disposition document (e.g. bill of sale, transfer document).

If the property is to be demolished, the disposition document and concurrence from GSA should be included in the file. The demolition date and cost to demolish should be added to the file, when known.

To ensure the accuracy of the data, the Regional Real Property Supervisor must review all excess reports prior to submittal.

## REAL PROPERTY ASSET REVIEW AND VALIDATION

Physical existence for all owned real property (accountable and capitalized) must be verified and reported to RPMD. Line offices must notify RPMD if any owned real property that is not identified in the real property inventory.

The real property annual validation is to verify that the owned real property and capitalized leases on the inventory physically exist and are in service. The purpose is NOT to validate the accuracy of data in the inventory system; any changes to real property data such as changes to address, correction of square foot, changes to property name, and so on should be reported to the RPMD Facility Support Assistant (FSA) using the Data Entry Form, during the regular course of business whenever identified, throughout the year.

RPMD is responsible for –

- Providing the Inventory Listing to the Line Offices, which is the list of owned real property and capital leases;
- Providing the guidance to line offices in completing the annual validation;
- Following up on any discrepancies with line offices; and,
- Reporting the results of annual validation.

Line Offices is responsible for –

- Verifying that the real property on the Inventory Listing physically exist and in service,
- Completing the annual validation in according to the validation procedures and timeline;
- Reporting the results of annual validation to RPMD;
- Submitting documentation to support any discrepancies, specifically
    - Real property missing from the Inventory Listing – provide information such as property name, address, type of property on the Inventory Listing.

# DEFERRED MAINTENANCE

**Definition**

"Deferred Maintenance" is maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.

"Maintenance" is described as the act of keeping fixed assets in acceptable condition. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

**Measurement**

Amounts reported for deferred maintenance will be determined using the "Condition Assessment Survey" method. A condition survey is a periodic inspection of real property to determine its current condition and to estimate costs to correct any deficiencies.

**Condition Assessment Survey**

A Condition Assessment Survey requires the periodic inspection of PP&E to determine their current condition and provide a cost estimate to make necessary repairs.

**Major Classes of Real Property**

For the purposes of this policy, the major classes of real property are:

- Buildings
- Structures
- Land
- NOAA-controlled capital leases-when NOAA has the financial responsibility for maintenance of the real property

**Reporting**

The following information shall be presented as required supplementary stewardship information: Identification of each major class of asset for which maintenance has been deferred.

- Method of measuring deferred maintenance for each major class of PP&E.
- If the Condition Assessment Survey Method of measuring deferred maintenance is used, the following must be presented:
- description of requirements or standards for acceptable operating condition
- any changes in the condition requirements
- Asset condition and a range or a point estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition.

**Method of Reporting**

On an annual basis, a data call is sent to the Project Planning and Management Division requesting a report on the status of NOAA's real property deferred maintenance. Upon receipt of the data call, Project Planning will request deferred maintenance reports from the Project Planning field personnel. These reports will be due back to Real Property two weeks prior to the due date assigned by NOAA's Finance Office.

The reports will include details associated with the addition of any new deferred maintenance projects, or the completion or deletion of an existing deferred maintenance project. Specific details to be included are the origin of any new projects, contact names, source of any cost estimates, and explanation for any change in the cost estimate. Hard copies of supporting documentation associated with quarterly report additions, deletions, or other changes will be maintained at the field site in a separate, auditable file, by the Project Planning employee assigned responsibility for the quarterly deferred maintenance report.

**Criteria for Inclusion**

Deferred maintenance determination will only be made for:

- NOAA-owned properties meeting the $200,000 capitalization criteria
- NOAA-controlled capital leases when NOAA has the financial responsibility for maintenance to the real property
- Individual deferred maintenance projects with a cost less than $50,000 will not be considered.

**Requirements or Standards for Acceptable or Operating Condition**

Real property assets will be evaluated utilizing the following standards:

- Applicable building codes, and/or
- building cost standards.

## ACQUIRED PP&E THROUGH DONATION, DEVISE OR JUDICIAL PROCESS

The position paper dated June 18, 1996 written by KPMG was to document our understanding of the proper accounting treatment of costs incurred subsequent to acquisition of real property. The first sentence under the heading of Improvements to Land states "The original acquisition cost of the land is the actual amount paid for the land and any additional costs incurred to place the land in use." If the land is acquired through donation, devise, or judicial process excluding forfeiture the land is valued at fair market value.

The position paper references SFFAS NO. 6. Paragraph 30 of SFFAS NO. 6 that states, "The cost of general PP&E acquired through donation, devise, or judicial process excluding forfeiture shall be estimated fair market value at the time acquired by the Government" The position paper also references NAO 203-157 which states under the heading of PURCHASED and LEASED-TO-PURCHASE LAND REPORT, subheading Acquisition Cost, "if donated, acquired by seizure, or foreclosure, insert the fair market value plus any costs incurred to place the land in use."

If a property donor elects to waive an appraisal, the title insurance valuation may be used to determine the fair market value of the donated property. Notification from the donor stating an appraisal has been waived must be kept on file.

## CWIP CONFIRMATION

Appendix F in the "Construction Work-in-Progress Policy (CWIP) and Procedures" manual, details the Construction Work-in-Progress Processing Flow and Responsibilities (for Real and Personal Property). Section 10.0 Transferring Assets from CWIP to Property, Plant, and Equipment (PP&E) establishes the procedure for reporting the project to Real Property and its subsequent recording in Federal RPM.

Upon acceptance of the completed item of CWIP, the activity manager must complete the NOAA Form (NF) 37-6, **in the calendar quarter the item of CWIP was accepted,** to transfer from CWIP to the appropriate asset account for depreciation (see Appendix I).

After obtaining the appropriate certifications within the Line/Staff Offices, the CWIP Activity Manager must e-mail a copy of the NF 37-6 (in PDF format) to the Financial Statements Branch CWIP Accountant, located in the Finance Office. **Completed CWIP activities must be reported on the NF 37-6 in the calendar quarter in which they are delivered or placed into service (accepted, occupied, commissioned or operational) to ensure depreciation begins timely and accurate reporting in NOAA's financial statements.**

Upon receiving the NF 37-6, the Finance Office will review the submission for clerical accuracy and project code activation. If insufficient "Uncapitalized Costs" exist on the CBS CWIP Report (CA500D) or there is a balance other than $0, the Finance Office will **not accept or certify** the NF 37-6 and will return to the CWIP Activity Manager for correction. The Finance Office's review does **not** include reviewing the CWIP documentation file or certifying the accuracy of the costs charged to and included in the CWIP activity. This is the **responsibility of and part of the certification by the Real/Personal Property Offices** during their review of the NF 37-6 and CWIP Documentation File prior to entering the CWIP asset into the property systems.

When the project codes and CA500D have been found to be correct, the Finance Office will accept and approve, by signing, the NF 37-6 and notify, via e-mail, the appropriate Real or Personal Property Office and CWIP Activity Manager. Upon receipt of the certified NF 37-6 from the Finance Office, via email, the CWIP Activity Manager should forward the CWIP documentation file to the appropriate property office for use during the review of the NF 37-6 and entry into the property systems.

The supporting CWIP documentation files sent to the property office must contain sufficient evidence and documentation to support all the costs summarized on the NF 37-6. The CWIP documentation file must include the accepted and certified NF 37-6 from Finance Office.

The Real/Personal Property Offices will review the NF 37-6 and related CWIP documentation file for completeness and accuracy, ensuring amounts included in CWIP were accurately included and should not have been expensed. **Incomplete files will be returned**, along with the NF 37-6, to the CWIP Activity Manager for correction. After the Property Office has approved the accuracy and completeness of the NF 37-6 and supporting documentation by annotating the NF 37-6, the property system will be updated and the certified NF 37-6 forwarded to the CWIP Activity Manager and to the Finance Office. The Property Office must record the same value in the property system as that accepted by the Finance Office CWIP accountant.

It is important to note the following supplemental instructions for processing Form 37-6:

- If the Finance certification has not taken place by the Quarter End in which the NF 37-6 was sent to Finance, request email notification of the circumstances surrounding the decision to delay certification. The Regional Real Property Office will then use the email notification for supporting documentation and place a copy in the CWIP file.
- Finance will not post to the General Ledger until the Regional Real Property Office certifies the NF37-6.
- An amended NF 37-6 must be submitted if there are any changes made after submitting the original NF 37-6. The revised NF 37-6 must be prepared and submitted in the same manner as the original and must be clearly marked as a revision.
- The Real Property Office, Silver Spring Headquarters will determine if the change should be entered into Federal RPM retroactively or prospectively. If the change is prospective, the in service date in Federal RPM should be the date of the Activity Manager's signature on the revised NF 37-6. In either case, the out of service date for the change should be the same as the out of service date for the original project.
- Validate that the useful life of the asset is in compliance with NOAA's policy.

In addition, the Real Property Office, Silver Spring Headquarters, will send a reminder to the appropriate CWIP Project Manager 30 days prior to the scheduled Beneficial Occupancy Date (BOD). The reminder will reiterate the CWIP Project Manager responsibilities when a project reaches BOD. The reminder will be based on the BOD listed on the CWIP Database report # CWIPDB 104.

The Disposal of Leases or Assets policy implements two procedures to ensure that CWIP projects are recorded in a timely manner. The first is a request to the line offices to perform a 100 percent inventory review of owned real property annually to validate the accuracy of Federal RPM. The second is that the regional real property chiefs will verify policy compliance with the project engineers.

In Federal RPM the depreciation record should be entered via the lease record (see desk guide for entering leasehold improvements for more information). If the leasehold improvement is a structure placed on improved leased land, a separate record should be entered with $0 acquisition cost. This provision is strictly for Federal RPM inventory purposes

# SECTION 3

## Lease Determination Worksheet (LDW)

**Overview:**

The National Oceanic and Atmospheric Administration (NOAA), Office of the Chief Administrative Officer, Real Property Management Division, performs a budget scoring analysis on real property agreements through a spreadsheet analysis called a lease determination worksheet (LDW).

Budget scoring ("scoring") analysis requires the breakdown of terms, conditions, and provisions of real property agreements to differentiate between transactions that may be capital expenditures from those that are operating expenditures.

Pursuant to the Budget Enforcement Act of 1990 (Title XIII of the Omnibus Reconciliation Act of 1990) (the "BEA"):

> …lease of a capital asset, budget authority [and obligations] will be scored in the year in which the budget authority is first made available in the amount of the government's total estimated legal obligations.

Capital expenditures require upfront budgeting of the total contract value (either in total dollars or discounted dollars) and the subsequent amortization of the annual rental payments over the full term of the real property agreement, if the agreement assumes ownership risk or assumes ownership in accordance with OMB Circular Number A-11.

OMB Circular Number A-11, *Preparation and Submission of Annual Budget Estimates*, explains the measurement of budget authority, outlays, and debt for lease-purchases and capital leases. Circular A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*, presents the requirements under which a lease-purchase or capital lease must be justified.

For budgeting purposes, there are three main types of leases: capital, operating, and lease-purchase. Lease-purchases are further broken down into lease-purchase with substantial risk and lease-purchase without substantial risk.

- <u>Lease-purchase</u> means a type of lease in which ownership of the asset is transferred to the Government at or shortly after the end of the lease term.
- <u>Capital lease</u> means any lease other than a lease-purchase that does not meet the criteria of an operating lease.

The Office of Management and Budget (OMB) provides guidance, in Appendix B of OMB Circular Number A-11, specifying the conditions under which a lease is considered capital or operating, for budgetary purposes. Records regarding the scoring analysis on real property procurement actions are required. As stated above, NOAA performs this review through a spreadsheet analysis called an LDW. Under Appendix B of OMB Circular Number A-11, there are seven criteria that a real property agreement must meet in order to be considered an operating agreement. If any one of these criteria is not met, the lease will be scored as a capital lease. These factors are as follows:

- Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease term;
- The lease does not contain a bargain-price purchase option;
- The lease term does not exceed 75 percent of the estimated economic lifetime of the asset;
- The present value of the minimum lease payments over the life of the lease does not exceed 90 percent of the fair market value of the asset at the inception of the lease;
- The asset is a general purpose asset rather than being for a special purpose of the Government and is not built to the unique specification for the Government as lessee; and,
- There is a private market for the asset.

An LDW, for scoring purposes, must be completed for every real property agreement with a non-federal entity and/or quasi-federal entity (e.g. airport authority).

For real property lease contracts, if a real property agreement is determined to be <u>capital</u> in accordance with OMB Circular Number A-11 guidance, then the real property agreement is considered <u>capital</u> per Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) numbers 5 and 6. If a real property agreement is determined to be <u>operating</u> in accordance with OMB Circular Number A-11 guidance, then the real property agreement is considered <u>operating</u> per FASAB, SFFAS numbers 5 and 6.

In the event a real property agreement is at "no-cost" or consideration is set at $1, a lease determination worksheet analysis is not necessary as long as the lease agreement does not possess a transfer of ownership or a bargain purchase option. These agreements should be classified as operating to NOAA. An LDW signature page signed by the Realty Specialist, Contracting Officer, Silver Spring Management Analyst, and the Real Property Branch Chief should be included in the lease file acknowledging the lease was classified as an operating lease.

In the event NOAA is housing its space requirement in or on another federal agencies real property and the real property is within the other federal agency's space inventory, the real property holding agency is responsible for budgetary scoring. Examples include space assignments where NOAA is housed within or on U.S. General Services Administration real property, U.S. Corps of Engineers real property, U.S. Department of the Interior real property and U.S. Postal Service real property. These agreements should be classified as operating to NOAA.

Based upon the above, in the event a real property agreement does not require an LDW, the Contracting Officer shall create and sign a Memorandum to the File attesting to the reason(s) why the LDW analysis was not performed.

**<u>Required Documentation:</u>**

In order to complete the lease determination worksheet (LDW), it is important to have the correct documentation available. Information needed to complete the real property LDW is as follows:

1. Copy of agreement with description of leased property including total square feet, if applicable;
2. Copy of agreement with lease commencement date;
3. Final expiration date (after exercising all option years);
4. Copy of agreement providing any options and option terms;
5. Any documentation from the Lessor attesting to capital improvements to the subject real property within the past three to five years along with any provisions incorporated into the real property agreement requiring the Lessor to make capital improvements within the next three to five years;
6. Copy of agreement expressing the rental terms and conditions;
7. Copy of agreement expressing the amortization of any tenant improvement allowance, if applicable; and,
8. Copy of Memorandum to the File providing for the estimated fair market value of the real property.

The LDW must be completed prior to award of the real property agreement. Ideally, the LDW is completed after negotiations and final proposals are accepted. It is acceptable to perform a preliminary LDW analysis as part of the acquisition planning process to better define negotiation objectives.

**Roles and Responsibilities**

The Realty Specialist is responsible to ensure all information necessary is submitted to the Management Analyst within the Real Property Management Division (RPMD) – Silver Spring for review and analysis through the LDW. After any requests and questions from the Management Analyst have been addressed, the Management Analyst within RPMD - Silver Spring will perform the LDW analysis. The Management Analyst within RPMD - Silver Spring will provide a copy of their LDW results along with a copy of the worksheet to the realty specialist and appropriate branch chief for review via e-mail. The appropriate Branch Chief will review, approve, and sign the LDW before the Management Analyst with RPMD – Silver Spring signs the LDW.

If the lease is determined to be capital for budget purposes, the signature of the headquarters line office Budget Officer must be obtained, by the Realty Specialist, along with any updated accounting classification code information, for Office of Finance. If the lease is not capital, the signature of the local line office budget officer must be obtained, by the Realty Specialist, along with any updated accounting classification code, for Office of Finance.

Since the LDW analysis is performed prior to award of the agreement/contract, the Realty Specialist may re-negotiate the terms and conditions to ensure an operating agreement, when possible.

The Realty Specialist and Contracting Officer shall ensure all the signed LDW documentation is placed in the lease file.

**Modification or Supplemental Agreement due to Change in Financial Structure of Agreement:**

When there is a modification or supplemental agreement to the real property agreement that changes the financial structure of the real property agreement, a revised lease determination worksheet (LDW) will be required. The budgetary scoring or LDW analysis should evaluate the difference of the Government's total estimated legal obligations between the modified agreement/contract and the remaining term of the original agreement/contract.

The full cost of the modified agreement/contract should be scored through the LDW for budgetary purposes. If the modification or supplemental agreement continues to represent a capital lease, the budgetary resources are to be obligated up front, either equal to the modified financial obligation or the present value of the modified payments (either discounted or in whole dollars). The revised budget for the lease payments will be the difference between the previous real property agreement and the modified real property agreement. If the modified lease is determined to be capital for budget purposes, the signature of the headquarters line office Budget Officer must be obtained, acknowledging the change, by the Realty Specialist, along with any updated accounting classification code information, for Office of Finance.

Similarly, when an agency modifies or amends an existing operating lease contract, the impact of the changes needs to be evaluated through the LDW for budgetary purposes. If the lease no longer meets the criteria for an operating lease, the modified lease should be treated as a capital lease, for budgetary purposes. If the lease is determined to be capital for budget purposes, the signature of the headquarters line office Budget Officer must be obtained, acknowledging the change, by the Realty Specialist, along with any updated accounting classification code information, for Office of Finance.

If an operating lease remains operating, the signature of the local line office Budget Officer must be obtained, acknowledging the change, by the Realty Specialist, along with any updated accounting classification code, for Office of Finance.

Since the LDW analysis is performed prior to award of the modified or amended agreement, the Realty Specialist may re-negotiate the terms and conditions to ensure an operating agreement, when possible.

Modifications or supplemental agreements for regular lease administration purposes including changes in rent due to any increases or decreases in operating rent or tax obligations do not require a re-scoring or LDW analysis, except if part of a financial re-structuring of the real property agreement.

## LDW - SECTION A.I – General Information

This section is to determine if the lease is with another federal agency.

**1. Is the lease with another federal agency?**

Determine whether the lessor is another federal agency. Per OMB A-11, Appendix B, the only exception to the requirements outlined in the appendix is leases between Federal agencies if the lessor recorded the full cost of the asset when it was acquired.

If the answer to Question 1 is Yes, contact the federal agency to determine if the Federal agency recorded the full cost of the asset when acquired. Complete Question 1a. If the answer is No, continue to Section A.2.

**1a. Did the other Federal agency record the full cost of the asset when acquired?**

If the answer to Question 1a is Yes, then go to Section A.12, check "Other", and provide an explanation such as "The lease is with xyz (the Federal agency). Xyz recorded the asset at cost, and therefore, NOAA does not need to budget for this lease." The rest of Part A of this worksheet does not need to be completed.

However, if the other Federal agency did not record the leased asset at cost or it is unknown whether they did or did not record it at cost, then the answer to Question 1a is No and continue to Section A.2.

## LDW - SECTION A.2- Economic Lifetime

### 2. Are there multiple assets in the lease?

This question relates to leases that have several assets and each asset has a different "delivery" date (i.e. acquisition date or beneficial occupancy date). An example would be a lease for two buildings with a beneficial occupancy date for Building A of January 1, Year 1 and a beneficial occupancy date for Building B of August 15, Year 2.

OMB A-11, Appendix B, states that the up-front budget authority (BA) is calculated differently for multiple deliveries of assets. "The up-front BA is the sum of the present values of the lease payments for each asset discounted back to the date that the asset is delivered. For example, if the lease contract provides for the delivery of one machine in each of the next five years, the lease payments for the machine acquired in the first year would be discounted back to the first year, while the lease payments for the machine acquired in the fifth year would be discounted back to the fifth year, and the total BA recorded up front would be the sum of the present values calculated for each of the five deliveries." (OMB A-11, Appendix B)

For example, a contract includes leases for three buildings. The proposed beneficial occupancy date for the first lease is June Year 1. The lease has a proposed beneficial occupancy date of May Year 2, and the last lease has a date of December Year 2. The present value would be calculated separately for each lease based on its beneficial occupancy date. The three present values would then be added together to determine the up-front budget authority required for this lease.

If there are multiple assets in the lease, identify the beneficial occupancy dates or acquisition dates of each asset. Continue to Question 3.

If there are not multiple assets in the lease, continue to Question 3.

**3. Complete the following information:**

This information should come from the proposal for the lease or once the lease has been signed, from the actual lease.

**3a. Lease commencement date (lease term beginning date) or date of first payment, whichever is earliest.**

Enter the earliest of either the date of the beginning of the lease term or date of the first payment.

**3b. Date the contract/lease was signed.**

Enter the date that the contract/lease is estimated to be signed or has been signed. This date will determine the interest rate used to calculate the net present value of the lease payments.

**3c. Lease end date.**

Enter the date that the lease ends. In determining the end date, include option periods and holdover term, if applicable.

**3d. Base lease term (excluding option years).**
The base lease term should be the amount of time that the asset will be leased before consideration of option periods or renewal options. Option years are additional periods that allow the lessee, at their option, to renew the lease for a period of time beyond the base term.

For example, a lease may have a base term of five years with a renewal period of fifteen years; thereby, the total term of the lease including options is twenty years.

**3e. Number of ALL option years, including increments.**

Option years are additional periods that allow the lessee, at their option, renew the lease for a period of time beyond the base term. Assume that all options will be exercised, even if the lease does not state that they will be automatically exercised or NOAA does not expect to exercise all the option periods. Also assume that an option will be exercised even if the rental payments are increasing after the implementation of the option.

**3f. Holdover term, if applicable.**

The holdover term describes what happens if the lease ends and NOAA has not vacated the premises. If the holdover term is in months, convert the number of months to years by dividing by 12 months. For example, a 3 month holdover term is .25 years (3 months/12 months). If no holdover term is specified, leave blank.

**3g. Total lease term (including option periods, if applicable).**

Sum of the base lease term, the option periods (if applicable).

**4. Complete the following information:**

These questions relate to the economic lifetime of the asset and are not applicable if the leased asset is land because land has indefinite economic lifetime. Therefore, if the lease is for land only, skip Questions 4 through 6, go to Question 7, and answer No to Question 7. Otherwise, complete Question 4.

This information will probably not be located within the lease itself. The landlord or property manager should have all necessary information required to answer the following questions.

**4a. Enter NOAA's suggested economic lifetime for leased real property.**

It is encouraged to solicit any information from a Lessor on the condition of the real property asset along with the Lessor's professional opinion on the economic life of his/her real property asset. Obtaining a Lessor provided structural analysis or a Lessor provided Professional Engineer signed assessment of the real property asset is meaningful, but not mandatory.

If the Realty Specialist is aware that the real property asset is in poor condition, obligating the Government to a long-term lease (greater than five (5) to seven (7) years, forward, including the current calendar year) would not be appropriate. Further, regardless of the condition of the real property asset, termination or cancelation rights should be included in the real property lease contract, as a regular course of business.

In accordance with the U.S. General Services Administration 'scoring guidance', since statutory authority for real property leasing does not exceed 20 years and the existing tax laws specify that the economic life of a building or commercial real property asset (regardless of its type), is greater than 30 years, it is rare that a real property lease term will exceed the "75 percent rule". "For the purposes of performing scoring analyses, all buildings, regardless of age, have the economic life of a new building."

**4b. Have there been any major improvements/renovations to the building(s)/structure(s)?**

If the answer is Yes, go to Question 4c. If the answer to this question is No, then skip Question 4c, 4d, 4e, 4f, and 4g and go to Question 4h. If the building is new at the beginning of the lease, then the answer to this question is No.

**4c. Check the major systems and subdivisions of the leased property that have had major renovations or replacements. Also include the amount of each improvement.**

Projects of this type will be evaluated using the professional judgment of the engineer designing or overseeing the design of the project. This section is not mandatory for real property budgetary scoring purposes.

**4d. Were there renovations/replacements to two or more major systems and at least three subdivisions?**

Using the answers to Question 4c, determine if there have been renovations to two or major systems. In addition, determine if there have been renovations to at least three subdivisions. This section is not mandatory for real property budgetary scoring purposes.

**4e. Did any of the renovations/replacements cost $200,000 or more?**

Using the answers to Question 4c, determine if there were any renovations that cost $200,000 or more.

**4f. Enter the date the renovation or improvement was completed.**

Optional

**4g. Enter the number of years that the improvements/renovations (described in Questions 4c) extend the useful life of the leased property.**

Optional

**4h. Enter the date that the building(s) or structure(s) was built.**

Optional

**4i. Lease commencement date (lease term beginning date) or date of first payment, whichever is earliest.**

The worksheet automatically obtains this information from where it is located previously in the worksheet (Section A.2, Question 3a).

**4j. Age of the leased property at the beginning of the lease.**

Optional

**5. What is the estimated economic lifetime of the structure(s) after improvements and/or replacements?**

Enter the economic lifetime of the building(s)/structure(s) after improvements and/or replacements.

If using first line, use the first line and either use lessor information or default to 30 years.

If using second line to enter the appraiser's opinion or default to 30 years.

**6. Total lease term (including option years, if applicable) as a percentage of the estimated economic lifetime.**

The worksheet automatically calculates this percentage by taking the lease term (Section A.2, Question 3g) divided by the estimated remaining economic lifetime (Section A.2, Question 5). Continue to Question 7.

**7. Is the total lease term (including options term) equal to or greater than 75% of the estimated useful life of the asset?**

This question is one of the six criteria used to determine the type of lease. If the percentage calculated in Section A.2, Question 6 is equal to or greater than 75%, then the answer to the question is Yes. If the economic lifetime of the asset is less than the lease term, this percentage will be negative and the answer will also be Yes. If the percentage is less than 75%, then the answer is No.

Continue to Section A.3.

## SECTION A.3 – Present Value Calculation

If there are multiple assets within the lease, answer the questions in this section for each asset. Present value will need to be calculated for each asset.

**8. Enter the scheduled payment periods, including option years.**

Identify the total number of payment periods. The measurement unit should match the payment term of the lease. (For example: If the lease states payment terms in months, use months to identify the payment periods. If the lease states payment terms in years, use years to identify the payment periods. If the lease states payment terms in quarters, use quarters to identify the payment periods.) Make sure to indicate the units on the worksheet.

Continue to Question 9.

**9a. Are the lease payments payable in advance?**

Lease payments made in advance are made at the beginning of the payment period.

If the lease payments are payable in advance, one of the exception criteria noted in the Red Book Volume III, Chapter 13-132 must be met.
http://www.gao.gov/special.pubs/d08978sp.pdf

**9b. Are the lease payments payable in arrears?**

Lease payments made in arrears are made at the end of the payment period. Since the Government normally pays for services and supplies after they are acquired, payments in arrears are most common.

If the lease does not identify when the payment is to be made, assume that the payments are payable in arrears.

Continue to Question 10.

**10. Enter the scheduled payment terms and amount, excluding executory costs and including <u>all</u> option years.**

Identify the actual number and amount of the lease payments to be made. Any increases in rent or changes in rent outlined in the lease should be documented. The operating and executory costs, if not broken out in the lease, should appear on the Form 1217.

Appendix A should be used to document the payment amounts. There are six versions of the appendix – two for monthly payments, one for payments in arrears and one for payments in advance; two for quarterly payments, one for payments in arrears and one for payments in advance; and two for annual payments, one for payments in arrears and one for payments in advance.

The appendix includes the following columns: month-year, payment number, total lease payment, operating costs (excluding property taxes), property taxes, net lease payments, increase percentage, and CPI percentage. This appendix should be modified if additional calculations are needed to show how the lease payments are determined.

**Excel Tip** - Enter a few months and years in the column. Highlight the cells containing the months and years. Grab the lower right-hand corner of the highlight and drag to the end of the payment stream. This technique should enter the months and years into the cells without having to enter them. The month and year have to be entered in a MM-DD-YY format for the drag-down technique to work.

Continue to Question 11.

**11. Enter the Treasury's interest rate effective for the length of the lease as of the date that the base contract/lease was signed.**

The Treasury rate is updated annually. The rates are effective as of February 1 of the year. Use the **annual nominal** interest rate. Treasury rates (including current year) can be found on Table of Past Years Discount Rates from OMB Circular A-94, Appendix C. Use the interest rates in the top table. (http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html)

Use the year that the base contract/lease was signed and the length of the lease term (including option years) to determine which interest rate should be selected.

The interest rates in the table are for 3-year, 5-year, 7-year, 10-year, and 30-year terms. For leases that have different terms than those identified in OMB Circular A-94, use Attachment D to figure out the appropriate interest rate. Enter into the Appendix B the 3-year, 5-year, 7-year, 10-year, and 30-year interest rates form Circular A-94. Appendix B will then calculate the interest rates for those leases with different terms.

For leases with one or two year lease terms, use the 3-year interest rate. For leases with terms up to 20 years, interpolate using the 10-year and 30-year interest rates. Terms should not exceed 20 years in total.

**11a. Enter the date signed or effective date, whichever is earlier of each modification (i.e. SLA) that changes the financial structure of the lease. Also enter Treasury's interest rate effective for that date.**

See Chapter 5 for more specific instructions related to modifications.

Continue to Question 12.

**12. Enter the fair market value of the leased property.**

The Fair Market Value of the leased property should be provided by using one of the following in the hierarchy of documentation:

- A signed and dated appraisal performed by a State Licensed and Appraisal Institute certified Appraiser. The appraisal must provide a Fair Market Value for the subject property, a Fair Market Value for Leasing Purposes, along with a Fair Annual Rental. The Appraiser shall provide an itemization of typical Lessor and Government provided expenses along with an opinion on the property's condition;
- A copy of an appraisal of the subject property performed for the Lessor (dated within past 12 months);
- Lessor's construction costs, if the leased property is new construction;
- A letter signed by the Lessor providing the Fair Market Value of the leased property as of the lease commencement date or sufficient information to determine the fair market value of the real property;
- Tax records as of the lease commencement date, phased-in values of land and improvements are acceptable;

- An 'in-house' appraisal performed and signed by the Realty Specialist using the income approach to value primarily using private sector comparables within the greater market area (see GSA Form 1241-E for an outline of format);
- A copy of an appraisal of a similar neighboring property, in type, size, and use; and,
- The estimated cost to construct a similar facility including estimated construction cost, design cost, management and inspection cost, along with the cost of land necessary for the facility. If the facility is not new, subtract the cost of any required capital improvements or any lessor planned repair and maintenance expenses, at the subject location, if known.
- A memorandum to the file signed by the Contracting Officer summarizing market information in determining the Fair Market Value

Maintain and attach supporting documentation of how the fair market value was estimated or calculated (e.g. appraisal). Exclude features or enhancements that were built or added for the Government's unique needs or special purposes. Also consider the percentage of the building/structure that is being leased if it is not the entire building/structure.

In cases where NOAA leases part of a larger building, obtain the fair market value of the entire building and apply a percentage to obtain the fair market value of the leased space. For example, if NOAA rents 10,000 gross square feet in a building with 50,000 gross square feet, and the building has a fair market value of $9,000,000, the fair market value of the leased space would be $1,800,000. (10,000 SF / 50,000 SF times $9,000,000 = $1,800,000)

**13. Complete Appendix D.**
Appendix D will calculate the present value of the lease payments.

First, determine which Appendix D should be used. There are six versions of Appendix D. Two versions calculate present value for monthly lease payments – one for ordinary annuity and one for annuity due. Two versions calculate present value for quarterly lease payments – one for ordinary annuity and one for annuity due. The last two versions calculate present value for annual lease payments – one for ordinary annuity and one for annuity due. Contact NOAA RPMD – Silver Spring if none of the versions of Appendix D will work for the lease.

The top portion of Appendix D is automatically linked to data that was already entered into the worksheet such as lease number, complex ID, property ID, property name, address, city and state, brief description of leased property, date lease signed, lease start date, lease end date, interest rate, and fair market value. Enter the number of months in the first year of the lease.

For the bottom portion of Appendix D, the lease payments, executory costs, and month-year information will be populated based on the information entered into Appendix A. Appendix D will calculate the present value of the lease and the percentage of fair market value.
Hints:

⇒ The remaining balance should equal zero for the last payment.
⇒ The total of the principal payments should equal the present value.

Once the spreadsheet has calculated the present value, create formulas (sums) in the "Outlays" section to determine the costs by fiscal year. Enter the applicable fiscal year (i.e. 2005, 2006).

Continue to Question 14.

**14. The present value of the minimum lease payments, based on Appendix D of the lease determination worksheet.**

The worksheet is linked to Appendix D; therefore, the amount that appears should be the present value that was calculated in Appendix D.

Continue to Question 15.

**15. Present value of the minimum lease payments as a percentage of the fair market value of the leased property.**

The worksheet automatically calculates this percentage by taking the present value of the leased property (Section A.3, Question 14) divided by the fair market value of the leased property (Section A.3, Question 12).

Continue to Question 16.

**16. Is the present value of the minimum lease payments equal to or greater than 90% of the fair market value of the leased property?**

This question is one of the six criteria used to determine the type of lease. If the percentage calculated in Section A.3, Question 15 is equal to or greater than 90%, the answer to this question is Yes. If the percentage is less than 90%, the answer is No.

## SECTION A.4 - Capital or Operating Lease Determination

**17. Does the lease transfer ownership of the lease property to NOAA at or shortly after the end of the lease term?**

Leases, for budget purposes, are generally of three types–straight lease, lease with option to purchase, and lease to ownership. A straight lease would be an arrangement whereby the lessee has no known intention of ever purchasing the property being leased. None of the lease costs would be accruing toward an eventual purchase. If this is a straight lease, the answer to this question would be **no**.

A lease with option to purchase (LWOP) is an arrangement whereby a percentage of the lease cost is credited toward purchase. The percentage may vary depending on the point in time at which a purchase decision may be made. If this is a lease with option to purchase, the answer to this question would be **no**.

A lease to ownership (LTOP) is similar to buying on credit. The purchase cost and the interest for financing over the specified period are divided into payments for a stated period of time. When the last payment is made, the Government assumes ownership of the equipment. If the arrangement is a lease to ownership plan, the answer to this question would be **yes**.

Continue to Question 18.

**18. Is there an option to purchase the property at a bargain purchase option?**

If the terms of the lease would permit the Government at some point in time to purchase the item(s) for a price less than the expected fair market price of an item, as in the lease with option to purchase scenario, the answer to this question would be **yes**. If the lease does not include these specific terms, the answer to the question would be **no**.

Continue to Question 19.

**19. Is the leased property new construction?**

This test for capital lease determination is only relevant to new construction, built-to-suit for NOAA occupancy.

**19a. Is the lease for a special purpose of NOAA or was it built to the unique specification of NOAA?**

For this test, it is important to distinguish between the physical characteristics of the building and the build-out requirements of the interior space occupied by NOAA. For example, if NOAA were to vacate the premises and the building cannot be converted to a private sector use, the answer to this question would be **yes**. However, if the build-out specification required by NOAA can be removed and the property can be converted to a use where there is demand by the private sector, then the answer would be **no**.

If the asset is constructed or located on Government land (in this case, it refers to Federal government land, not state or local government land), then it is presumed to be for a special purpose of the Government.

Continue to Question 20.

**20. Does the asset not have a private sector market?**

If there would be a private-sector market for the asset, the risk falls back on the lessor. When an asset has a "private sector market," it can be leased to other parties besides the government and therefore was not specifically constructed for the government. If it does have a private sector market, then the answer to this question is <u>No</u>. However, if the leased asset does not have a private sector market, then the answer to this question is <u>Yes</u>.

Continue to Question 21.

**21. Is the lease term <u>equal to or greater than 75%</u> of the estimated economic lifetime of the property?**

If the lease term is greater than the 75% of the remaining economic life of the property, the answer is **yes**. Otherwise, the answer will be **no**. The answer to this question should be the same as Section A.2, Question 7.

Continue to Question 22.

**23. Is the present value of the minimum lease payments <u>equal to or greater than 90%</u> of the fair market value of the leased property?**

If the net present value (NPV) of the minimum lease payments is equal or greater than 90% of the fair market value (FMV), then the answer is **yes**. Otherwise, the answer is **no**. The answer to this question should be the same as Section A.3, Question 16.

If the answers to <u>all</u> the questions in Section A.4 are <u>No</u> (even if Question 19 is <u>Yes</u>, as long as 19a is <u>No</u>), the lease does not meet the OMB capital lease requirements; therefore, the lease is classified as an **<u>operating lease</u>**. Skip Section A.5 through A.7 and continue to Section A.8.

If the answer to Question 17 or 18 is <u>Yes</u>, the lease meets the OMB **<u>lease-purchase</u>** requirements. Continue to Section A.5.

If the answer to Question 19a, 20, 21, or 22 is <u>Yes</u>, the lease meets the OMB **<u>capital lease</u>** requirements. Skip Section A.5 through Section A.8 and continue to Section A.9.

## <u>SECTION A.5 – Lease-Purchase with or without substantial risk</u>

Complete this section only if the lease was identified as a lease purchase in Section A.4.

Once it is determined that the lease is a lease purchase, the next step is to determine if the lease purchase is with or without substantial risk. According to OMB A-11, Appendix B, "risk is defined in terms of how governmental in nature the project is. That is, if the project is less governmental in nature, the private sector risk is considered to be higher."

The following questions are to determine whether the project is "less governmental".

**23. Is there no provision of Government financing or guarantee of third-party financing?**

Check to see if the lease provides for any clauses that imply an explicit or implicit guarantee by the government or a third-party guaranteed by the government that the developer of the property will be guaranteed any amount of money other than the lease payments as outlined in the lease.

Answer Yes if there is no provision. Answer No to Question 1 if there is a provision of Government financing.

Continue to Question 24.

**24. Does the risks incident to ownership of the asset (e.g. financial responsibility for destruction or loss of the asset) remain with the lessor unless the Government was at fault for such losses?**

The risk needs to be evaluated on a lease by lease basis, but as a general rule, more risk remains with the lessor with a full-service lease, and less risk remains with the lessor in an absolute triple-net lease.

Continue to Question 25.

**25. Is the asset a general-purpose asset (rather than being for a special purpose of the Government) and is not built to the unique specification of the Government as the lessee?**

Please refer to Section A.4, Question 19a for the answer.

Continue to Question 26.

**26. Is there a private-sector market for the asset?**

Please refer to Section A.4, Question 20 for the answer.

Continue to Question 27.

**27. Is the project constructed on land not owned by the Government?**

Government land, in this case, refers to Federal government land, not state or local government land.

If the answer to any of the above questions is Yes, then the lease is a **lease-purchase with**

**substantial private risk**. Go to Section A.6.

If the answer to all the above questions is No, then the lease is a **lease-purchase without substantial private risk**. Go to Section A.7.

## SECTION A.6 – Budgeting for Lease-Purchase with Substantial Private Risk

Complete this section only if the lease was as a lease-purchase with substantial private risk in Section A.5.

**28. Do the executory costs identified in the lease include property taxes?**

Per OMB A-11, Appendix B, property taxes are to be excluded from the lease payments for purposes of comparing the present value of the minimum lease payments with the fair market value of the asset (see Section A.3); however, property taxes are to be included in the calculation of the net present value of the lease payments for purposes of scoring budget authority.

If the answer to Question 29 is Yes, go to Question 2. If the answer is No, then go to Question 30.

**29. Enter the amount of property taxes.**

The worksheet will automatically fill in the amount of property taxes based on the information entered in Appendix A.

Continue to Question 30.

**30. Calculate the up-front budget authority.**

The up-front budget authority for a lease-purchase is the present value of the lease.

If there were no property taxes included as part of the executory costs, then use Appendix D of the Lease Determination Worksheet to determine up-front budget authority.

If there were property taxes included as part of the executory costs, the worksheet will use Appendix E of the Lease Determination Worksheet to determine the up-front budget authority.

Continue to Question 31.

**31. Calculate the outlays.**

The middle section of Appendix D or E calculates the outlays. The principal payments column is the outlay schedule for the up-front budget authority. The interest (considered Treasury's cost of financing) and executory costs columns will be recorded on an annual basis over the lease term.

## SECTION A.7 – Budgeting for Lease-Purchase without Substantial Private Risk

Complete this section only if the lease was as a lease-purchase without substantial private risk in Section A.5.

Contact NOAA RPMD – Silver Spring. Due to the complexity of the calculations for a lease-purchase without substantial private risk, NOAA RPMD – Silver Spring will assist in completing this section of the worksheet.

**32. Do the executory costs identified in the lease include property taxes?**

Per OMB A-11, Appendix B, property taxes are to be excluded from the lease payments for purposes of comparing the present value of the minimum lease payments with the fair market value of the asset (see Section A.3); however, property taxes are to be included in the calculation of the net present value of the lease payments for purposes of scoring budget authority.

If the answer to Question 32 is Yes, go to Question 33. If the answer is No, then go to Question 34.

**33. Enter the amount of property taxes.**

The worksheet will automatically fill in the amount of property taxes based on the information entered in Appendix A.
Continue to Question 34.

**34. Calculate the up-front budget authority.**

The up-front budget authority for a lease-purchase is the present value of the lease.

If there were no property taxes included as part of the executory costs, then use Appendix D of the Lease Determination Worksheet to determine up-front budget authority.

If there were property taxes included as part of the executory costs, the worksheet will use Appendix E of the Lease Determination Worksheet to determine the up-front budget authority.

Continue to Question 35.

**35. Calculate the outlays.**

According to OMB A-11, Appendix B, the outlays for a lease-purchase without substantial private risk is the "amount equal to asset cost scored over the construction period in proportion to the distribution of the contractor's costs."

NOAA RPMD – Silver Spring will help with the calculation of the outlays.

**36. Calculate the agency debt.**

According to OMB A-11, Appendix B, "agency debt accumulates during the period of construction, manufacture, or purchase of the asset." Agency debt increases each year by the amount of outlays and is subsequently redeemed over the lease payment period according to an amortization schedule.

NOAA RPMD – Silver Spring will help with the calculation of agency debt.

**SECTION A.8 – Budgeting for Operating Leases**

Complete this section only if the lease was identified as an operating lease in Section A.4.

**37. Calculate the up-front budget authority.**

The budget authority is an amount sufficient to cover the annual lease payment. (calculated in Appendix D).

Continue to Section A.10.

**SECTION A.9 – Budgeting for Capital Leases**

Complete this section only if the lease was identified as a capital lease in Section A.4.

**38. Do the executory costs identified in the lease include property taxes?**

Per OMB A-11, Appendix B, property taxes are to be excluded from the lease payments for purposes of comparing the present value of the minimum lease payments with the fair market value of the asset (see Section A.3); however, property taxes are to be included in the calculation of the net present value of the lease payments for purposes of scoring budget authority.

If the answer to Question 38 is Yes, go to Question 39. If the answer is No, then go to Question 40.

**39. Enter the amount of property taxes.**

The worksheet will automatically fill in the amount of property taxes based on the information entered in Appendix A.

Continue to Question 40.

**40. Calculate the up-front budget authority [budget purposes, only].**

The up-front budget authority for a capital lease is the present value of the lease.

If there were no property taxes included as part of the executory costs, then use Appendix D of the Lease Determination Worksheet to determine up-front budget authority.

If there were property taxes included as part of the executory costs, then use Appendix E of the Lease Determination Worksheet to recalculate the present value and determine up-front budget authority.

Continue to Question 41.

**41. Calculate the outlays.**

The middle section of Appendix A or B calculates the outlays. The principal payments column is the outlay schedule for the up-front budget authority. The interest (considered Treasury's cost of financing) and executory costs columns will be recorded on an annual basis over the lease term.

Continue to Section A.10.

**<u>Section A.10 – Type of Lease</u>**

At this point, a conclusion should have been reached about the type of lease. Review the table to verify that the lease is being classified correctly and that the budget authority and outlays were calculated accurately.

Continue to Section A.11

**<u>Section A.11 – Submission to OMB</u>**

Per OMB A-11, Appendix B, agencies are required to submit to their OMB representative certain types of leasing and other non-routine financing proposals for review of the scoring impact. The questions in this section of the worksheet determine if this lease needs to submitted to OMB.

**42. Does the total Government payments (over the full term of the lease) for this lease exceed $50 million?**

**43. Does this lease include any outlease-leaseback mechanisms?**

**44. Does this lease establish public private partnerships or limited liability corporations?**

**45. Does this lease include the issuance of debt by a third party that includes an explicit "full faith and credit" guarantee of debt repayment by the Government or an implicit guarantee of repayment from Federal funds that removes a substantial amount of the investor's risk?**

**46. Is this lease a lease of special purpose assets for which there is no real private sector market?**

**47. Is this lease an enhanced use lease with leasebacks with annual payments above the following threshold levels: a) 2007 - $2,540,000; b) 2008 - $2,590,000; c) 2009 - $2,800,000?**

**48. Is the leased property constructed or located on Government land?**

**49. Is the lease for service contracts that require the contractor to acquire or construct assets valued above $50 million?**

**50. Does the lease include a share in savings proposals that result in the acquisition of real property?**

**51. Does the lease raise issues about the governmental/non- governmental status of the asset or the entity that holds the title of the asset?**

**62. Does the lease include any financing proposal for which a statute requires OMB approval of the scoring or compliance with OMB Circular No. A-11?**

**63. Does the lease include arrangements that convey special tax status to the project by virtue of the Government's participation?**

**64. Does the lease include arrangement that involve options that can be conveyed to a third party in exchange for future consideration?**

**65. Does the lease include any unique or unusual concepts or characteristics not already mentioned?**

If the answer to any of the above questions is Yes, then the lease will need to be submitted to OMB during the conceptual, developmental stage. Contact NOAA RPMD – Silver Spring immediately.

If the answer to all the above questions is No, then the lease does not need to be referred to OMB.

## Section A.12 – Lease Type Determination

Check the appropriate block for Operating, Lease-Purchase with Substantial Risk, Lease-Purchase without Substantial Risk, or Capital Lease based on the conclusion reached by completing the worksheet. Enter the amount of budget authority required for this lease.

The document should be signed by the preparer and submitted to the Real Property Management Division (RPMD) – Silver Spring for review. The reviewer at RPMD - Silver Spring will return all comments to the realty specialist and appropriate branch chief for review and action. After the comments have been addressed and RPMD - Silver Spring has provided e-mail notification of concurrence with the results of the LDW, the branch chief will sign it. If the lease is determined to be capital for budget purposes, the signature of the headquarters line office budget officer must be obtained.

Make sure to attach the appropriate appendices and supporting documentation to the lease determination worksheet.

**PART B:**

Complete Part B for Accounting (FASAB) purposes. Part B should be completed for all leases that are identified as capital after completion of Part A of the worksheet <u>and</u> if the lease has total lease payments equal to or greater than $200,000 [must meet both criteria].

Part B is to be completed by personnel at Real Property Management Division (RPMD) - Silver Spring. Part B should be completed pre-award and if there is a change in the financial structure to an existing lease. Otherwise, For real property lease contracts, if a real property agreement is determined to be capital in accordance with OMB Circular Number A-11 guidance, then the real property agreement is considered capital per Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) numbers 5 and 6. Conversely, if a real property agreement is determined to be operating in accordance with OMB Circular Number A-11 guidance, then the real property agreement is considered operating per Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) numbers 5 and 6.

# SECTION 4

[Reserved for Internal Controls on Real Property Procurements]

# GLOSSARY

*Complex ID:* This number represents a campus of buildings, structures, and/or land, each with their own Property ID number. When an asset is not located near other properties, then its complex ID equals its property ID. NOAA RPMD – Silver Spring is currently working on a methodology for creating a standard complex ID.

*Description of Lease Property*: At a minimum, describe the general purpose of the lease (office/lab/storage space, antennae space on tower, land for observation tower, dock space, etc.). Enough details should be provided to give the reader an understanding of the property to be leased and the operations taking place on the property. Also identify the NOAA Line or Staff Office that is leasing the asset.

*Discount Rate*: OMB issues discount rates for leases with terms of 3, 5, 7, 10, and 30 years. For rental terms that differ from these, the rate must be interpolated to obtain the correct discount rate to use in the LDW calculation.

*Executory costs* tend to be affiliated with ownership responsibilities; however, often these costs are pass-on to the tenant. The only impact executory costs have are on budgetary scoring to reduce payments to be used in performing the 90 percent test in determining the lease classification between operating and capital. Executory costs typically include:

- All applicable taxes imposed upon and in connection with the real property in the rental consideration;
- The annual cost of fire, liability, and other insurance carried on the real property in the rental consideration;
- Annual cost of wages, materials, and outside services used in repairs and maintenance of the real property improvements along with all similar repair and maintenance costs including major repairs, replacements, or capital improvements to boiler, chiller, water tower, compressors, roofing systems, exhaust and ventilation systems, elevators, restroom plumbing systems, structural system, maintenance of fenestrations, etc…; but, excluding regular periodic or minor repair/maintenance expenses associated with heating, electrical, plumbing, air conditioning, and elevators, as referenced under operating costs, if applicable;
- Any lease commission; and,
- Administrative expenses such as agency fees, legal fees, auditing expenses of lessor's business entity, business advertising, income or corporate taxes, or organizational expenses.

*Effective Date*: The effective date is the date in which the agreement will commence.

*Fair Market Value for Leasing Purposes*: The Fair Market Value for Leasing Purposes is the Fair Market Value of a whole or part of a property to be leased by the Government.

*Fair Market Value*: Fair Market Value is the highest price estimated in terms of money in which the property will bring in the open market by a seller who is willing but not obligated to sell, allowing a reasonable time to find a buyer who is willing but not obligated to buy, both parties having a knowledge of all the uses of all the uses of the property including all the uses to which it is adapted and for which it is capable of being used.

The *Fair Market Value of the leased property* should be provided by using one of the following in the hierarchy of documentation sources:

- A signed and dated appraisal performed by a State Licensed and Appraisal Institute certified Appraiser. The appraisal must provide a Fair Market Value for the subject property, a Fair Market Value for Leasing Purposes, along with a Fair Annual Rental. The Appraiser shall provide an itemization of typical Lessor and Government provided expenses along with an opinion on the property's condition;
- A copy of an appraisal of the subject property performed for the Lessor (dated within past 12 months);
- Lessor's construction costs, if the leased property is new construction;
- A letter signed by the Lessor providing the Fair Market Value of the leased property as of the lease commencement date or sufficient information to determine the fair market value of the real property;
- Tax records as of the lease commencement date, phased-in values of land and improvements are acceptable [if value is set and the escalated/projected for a number of future years];
- An 'in-house' appraisal performed and signed by the Realty Specialist using the income approach to value primarily using private sector comparables within the greater market area (see GSA Form 1241-E for an outline of format);
- A copy of an appraisal of a similar neighboring property, in type, size, and use; and,
- The estimated cost to construct a similar facility including estimated construction cost, design cost, management and inspection cost, financing cost along with the cost of land necessary for the facility. If the facility is not new, subtract the cost of any required capital improvements or any lessor planned repair and maintenance expenses, at the subject location, if known.
- A memorandum to the file signed by the Contracting Officer summarizing market information in determining the Fair Market Value

*Full Service Rent or Rate*: The full service rent or rate is the maximum annual rental or maximum annual rate per square foot (see Square Feet) that is anticipated for the space that is either to be procured or is pending final approval for award. The full service rent or rate paid to the Lessor includes the annual amortization charge for tenant improvements, if applicable.

*Inflation Rate*: OMB issues inflation rates semi-annually.

*Lease or Real Property Agreement*: Lease or Real Property Agreement refers to lease, license, permits, and any other type of agreement that conveys the right to use real property and can include temporary rights of entry such as easements Please note that the term "Lease" is often used in general to cover all real property agreements.

*Location of Property (City, State):* Identify the city and state where the leased property is located.

*Length of Lease*: The length of lease is the fixed term of the proposed lease, plus any options to renew.

*Minimum Lease Payments*: The minimum lease payments is the rent or rate minus lessor provided operating and executory costs, if known:

a) operating expenses, if known;
b) base real estate taxes, if known;
c) insurance premiums, if known;
d) property management fee(s) and expense(s), if known; and,
e) maintenance and repair reserve(s), if applicable.

If the Government is funding or providing services, do not deduct the Government's estimated expenditure. Only subtract expenses funded by the Lessor as part of the rental consideration, in calculating the Minimum Lease Payments (e.g. if electricity is not part of the rental consideration, do not deduct the cost of electricity in determining the Minimum Lease Payments).

*Operating costs* are the periodic expenditures necessary to operate and maintain the real property. Operating costs include utilities, cleaning of premises, heating requirements of premises, electrical power needs, replacement of bulbs, plumbing supplies and periodic maintenance, air conditioning requirements of premises, elevator requirements of premises, and on-site engineer/management, landscaping, and site specific security.

Both Lessor and Lessee estimating *Operating Cost and Executory Cost* theoretically should reach the same conclusion; however, it remains a distinct possibility that each party might reach a different conclusion with respect to the ultimate amount that is allocated between the two. Further, it is not unusual for there to be a blending of costs that may cross between operating and executory categories. In an extreme scenario under a triple net lease, the lessee is responsible for all property taxes, insurance, and maintenance costs to the real property (executory costs) and often pays for these costs directly. Since real estate lessors generally do not report lessee paid executory costs as constructively received revenue, the lessor's reporting practice will typically be inconsistent with the lessee's analysis. Since the only impact both operating and executory costs have are on budgetary scoring is that the portion of both, provided by the Lessor as part of the rental consideration, should be identified and deducted to reduce payments to be used in performing the 90 percent test in determining the lease classification between operating and capital. If the Government is paying the expense separate from the rental consideration, the cost item should not be deducted from the rent in performing the 90 percent test.

*Property ID:* This number is system generated when the property record is entered. Identify the number when the lease is entered into the property system. This cell in the spreadsheet should be left blank until the lease is entered into the system; at which time, this cell should be filled in with the number provided by the system.

*Property Name:* The property name is user defined. NOAA RPMD – Silver Spring is currently working on a methodology for creating a standard property name.

*Square feet*: Identify the usable square feet of land, pad, shed, or floor area of structure being procured. If procuring space within a warehouse or office building, identify the rentable square feet. If performing a preliminary LDW as part of acquisition planning and there is a square foot range, use the maximum square footage of the range in the LDW analysis.

*Total gross square feet of building:* Identify the total square feet of the entire building. This information is especially important if NOAA is not going to lease the entire building.

*Total land leased in acres:* Identify the acres of land to be leased. (Remember, that 1 acre equals 43,560 square feet.)

*Tower space leased:* Describe the proposed height and placement of the antennae. In addition, identify the number of occupants leasing space on the tower (if known). The number of occupants may be used later to determine fair market value.

*Other space leased:* Describe other properties to be leased (if any).

In the next section, if revising the original worksheet, provide the reason for the revision. Examples include a Modification or Supplemental Lease Agreement to original lease that changes the financial structure of the lease (i.e. the lease payment stream) or an error (i.e. calculation error) was identified in previous worksheet. Also include the date of the revision. See Chapter 5 for more detail instructions related to modifications to a completed lease determination worksheet.